

De-Coding Crypto

Weekly Analysis

Is Bitcoin SV for real?

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In this week's issue, we discuss Bitcoin SV, currently #4 in market cap after a surge of over 200% in the past week, and ask: is this for real?

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Our Market View

May you live in interesting times. A week best described as "ludicrous". For the first time in a long while, essentially every alt gained against BTC even while BTC itself is in an uptrend (and showing real signs of being ahead of schedule on the expected 2020 bull run).

Is altseason here? We do not fully trust a lot of the recent price action. There has been a degree of blatant manipulation (as our research discusses) and a lord of herd effect pushing prices up; the only reason we wouldn't call it a market-wide bubble is because some of the best performers have been the ones that were on balance likely oversold in Q4 (ETH, EOS, ZEC all stand out) and hence are closer to reaching fair values than outlandish ones. This could be similar to the January 2019 rally or the outperformance in May, but it could just as easily be a September-style blip; far more needs to be seen in our view to have any confidence in the trend.

Please direct all enquiries about this week's research to jedwards@enigma-securities.io.

Major

Ticker	Price	7D	1M	6M	12M	Cap
BTC	8712.34	5.38%	23.31%	-18.87%	136.80%	158.2B
ETH	164.019	15.53%	16.84%	-28.14%	33.30%	17.93B
XRP	0.234912	10.46%	10.93%	-29.36%	-28.21%	10.25B
BCH	333.377	41.20%	65.11%	4.49%	164.10%	6.08B
LTC	57.5436	21.73%	35.46%	-42.32%	79.84%	3.67B
EOS	3.75753	30.61%	49.09%	-12.80%	52.79%	3.57B

Selected

Ticker	Price	7D	1M	6M	12M	Cap
BSV	365.561	224.40%	229.30%	113.00%	382.60%	6.64B
DASH	116.703	117.80%	141.90%	1.27%	62.65%	1.08B

Is Bitcoin SV for real?

The short answer here: no.

The long answer: absolutely not.

The even longer answer: no, and it serves as a good case study for why we are, at best, extremely wary of even some coins that would classically be considered mid-caps.

For those unfamiliar with BSV, a two-paragraph history. In August 2017, Bitcoin Cash (BCH) forked from BTC; every BTC holder got 1 BCH for every BTC they held (though of course BTC remained existent), and a new chain was started. The stated reasons were technical disputes, with BCH being an attempted adaptation to create a more payment processing-friendly BTC.

In November 2018, BCH itself then split in similar fashion over another stated technical dispute, and thus was created another new chain under the label Bitcoin Satoshi's Vision (BSV), with every BCH holder getting 1 BSV for every BCH they held.

This is an extremely simplified version, of course; for one thing, the BTC-BCH split had more to do with personality clashes and the like than the actual technical questions underneath, and the BCH-BSV split had almost everything to do with said clashes. For another, while BCH is still accepted by essentially every exchange, BSV is not. Of the major exchanges and derivatives platforms with significant Western presence, only Bitfinex supports it; Bitmex, Binance, Coinbase, Kraken, and most others do not.

Why? The "Satoshi's Vision" part is the key here. There are a handful of other supporters, but BSV is almost entirely the project of two men - Craig Wright, an Australian computer scientist who has since 2015 has claimed to have been the original creator of Bitcoin (via the Satoshi Nakamoto pseudonym), and Calvin Ayre, a billionaire gambling magnate who has been Wright's financial backer throughout said claim.

The entire saga could take up entire books, but the bottom line is that the Wright-Satoshi claim is mostly seen as a hoax, and that BSV is a medium-term attempt to claw back the huge amount Ayre invested into crypto mining (Ayre was a significant BCH backer, with his CoinGeek pool possessing a plurality of BCH mining power by mid-2018, but BCH's 90% drawdown by the BCH-BSV split likely put a damper on profits from said venture).

BSV's performance since the split has typically been unremarkable:



Credit: Tradingview. Blue: BSV/USDT, cyan: BCH/USDT.

Launched in the midst of crypto winter (and very briefly challenging BCH in price terms – more on that later), it still mostly depreciated, reaching a low of \$52 in early May after BTC and other coins had rallied. It would then make a massive rally towards the end of May, jumping over 200% intraday on May 21st to \$132 (at the time [ascribed by CoinDesk to an announcement - which was ultimately disproved within days](#) - that Wright had successfully registered a copyright on the Bitcoin whitepaper and hence had been recognized as Satoshi by the US government) and reaching \$226 by June 4th (albeit in the midst of similarly steep gains across crypto markets in general).

During the general crypto drawdown in Q3 and Q4, performance has been similar to most of the field against BTC:



Credit: Tradingview. Blue: BSV/BTC, orange: BCH/BTC, purple: LTC/BTC

We did notice that BSV led the October rally by a few days (though later jumps in November turned out not to be particularly meaningful), but for the most part, it acted similarly to most other alts - fairly stable against BTC, slightly outpaced it on downwards shocks, and ended 2H 2019 down against both USD and BTC.

So, then, to this:



Credit: Tradingview.

In terms of news catalysts, there have been some, though they are not as strong as one might expect. The general story in late 2019 and going into 2020 has centred around the 'Tulip Trust' case - Wright reportedly had a cryptomining business partnership with computer engineer Dave Kleiman (who passed away in 2013 and who both Wright and Kleiman's estate claims was part of the creation of Bitcoin), that resulted in a stash of 1.1m BTC (\$9b-\$10b value as of the time of writing) to be unlocked on January 1st, 2020 after receiving the cryptographic keys from a bonded courier.

While the question in court is over the distribution of said assets between Kleiman's estate and Wright, the broader question is whether the Tulip Trust actually exists, given a) its existence would be a far stronger argument for Wright's claim to BTC authorship than anything he has been able to present so far, and b) Wright would presumably seek to sell off any such stash. The judge in the case, in addition to awarding that the assets should be split between Wright and Kleiman (on the presumption that the Trust exists), [has given Wright until February 3rd to access the Trust.](#)

This was the only information even vaguely publicly available in at least the early parts of the pump. There were rumours starting to circulate on Tuesday afternoon that Wright was claiming to have received the keys to the Tulip Trust ([as relayed by Arthur van Pelt](#), who has done excellent work on BSV and the Wright-Satoshi claim); [this proved to be true insofar as making the claim](#), but at time of writing, did not prove to be true insofar as a) proving ownership, b) proving existence of the sums in question, or c) proving the existence of the much-talked-about bonded courier. Given Wright's record in terms of being able to prove past claims, and how frequently announcements like this have turned out to be essentially little more than fabrications, it is impossible in our view to put any measure of genuine belief in this until more details emerge.

Of course, there is an extent to which this could be argued to be along the same lines as the supposed copyright registration in May - a speculative bubble that perhaps emerged from natural demand, as all-informed as that demand would be. The problem is this: from our observations of trading on the major BSV exchanges, huge parts of the BSV rally do not look like an organic swell of demand, but instead like a single actor, or very small set of actors, sweeping a huge portion of the order book repeatedly.

The BSV rallies have often come in the context of BTC surges, but drawing a comparison in terms of volumes and the like to BTC would be a little spurious given how different BTC is in nature to every other crypto asset. So, for the sake of comparison, let us take an asset (LTC) that had a similar cap to BSV pre-pump and has itself healthily over the last few days, and look at the minute data during the very first leg up for BSV:



Credit: Tradingview

There tends to be a presumption that a low base volume and extremely high peaks are an indicator of suspicious trading patterns; there is clearly some truth to this (particularly in markets as relatively liquid and algo-heavy as cryptocurrencies), but it is entirely natural for there to be largely fallow periods in mid-caps and the like before something catalyses a lot of volume very quickly. What is less natural - and this can only really be seen in 1m data or similar - is the sort of activity we see on the BSV chart. The 'cliff-edge' upwards movement, extreme 1m volume outliers, and the rapid oscillation afterwards are all symptomatic of one thing: in essence, a sweep of the entire order book up to that level. (For reference here, we primarily looked at Huobi, since it is by far the biggest of the BSV exchanges, and there are pre-existing doubts over the accuracy of both liquidity and volume data from both OKEx and HitBTC – [this piece from BitMEX Research being a particular favourite](#))

The spikes on January 10th were fairly consistent - around 4,000 units of BSV in one minute, and then about about 10,000 in the second. There would presumably be some proportion of that not bought by the actor or actors attempting to create a spike, so we'll be generous and call it a 10,000 BSV buy; at the close of that first candle, this would have been a hair under \$1.3m each.

This is, of course, a sizeable outlay, but well within the capacity of even a single actor in a market with low liquidity. This is important – while the technical nature of cryptos tends to keep exchanges within a reasonably tight spread of each other at this point in their development, the fact that BSV is only listed on a handful of exchanges means one exchange can put more pressure on than usual. Cryptowat.ch, which incorporates API data from every reputable major exchange, shows liquidity up to 100bps (1%) combined across all exchanges; here is one such snapshot:

Symbol	Name	Liq Bid	Liq Ask
BTC	Bitcoin	52.42M	73.25M
ETH	Ethereum	19.49M	17.83M
XRP	Ripple	5.999M	6.364M
BSV	BitcoinSV	568.6K	699.2K
BCH	Bitcoin Cash	4.041M	5.065M
USDT	Tether	8.191M	7.694M
LTC	Litecoin	6.333M	8.464M
EOS	EOS	5.603M	8.023M

In other words, just \$1.3m is available within a 1% spread across all indexed books, as opposed to \$10m or more for others. Of course, this comes during a peculiar time for BSV, but even so, BSV liquidity has consistently been several times lower than other mid-caps, and often lags behind even smaller coins in that regard; it is in real terms by far one of the least liquid coins with a billion-dollar or more market cap.

There were at least four such sweeps over the course of the day on the 10th (the fifth spike is unlikely to have represented organic buy pressure in the strictest sense but does look more natural than the others):



Credit: Tradingview.

We saw somewhat similar patterns on the 14th at around the same times of day, though slightly more obscured because of overall higher volumes:



Credit: Tradingview.

Hence, not only does this not seem to have been organic pressure in any real sense, it crucially seems overwhelmingly likely that it came from a very, very small group of actors. We note in particular the difference between these early sessions and the later pumps on the 10th:



Credit: Tradingview

These pumps may not have been entirely clean in themselves, but the best working theory we have given the timing, and given BSV's outsized presence in China (and Huobi and OKEx both being primarily Chinese exchanges), is that those pumps represented semi-organic demand in terms of buy-ins from varying degrees of Chinese retail. Yet in any case, the difference between them and the early sessions is night-and-day.

If the BSV market is being manipulated, it is hard to say where the end game lies exactly. The level at the time of writing - consistently barely tracking above BCH - is almost certainly not a coincidence; [Ayre has been very publicly vocal about flipping BCH](#) (which has essentially identical supply and hence whichever of the pair has higher nominal price has the higher market cap) as a goal, and the ridiculous frenzy during Tuesday afternoon as price on both BSV AND BCH suddenly raced up, and the reality that said frenzies were almost certainly interlinking, was very plain to see:



Credit: Tradingview.

With that now having happened, what happens next is unclear. Unless the barely-thinkable happens, and Wright actually proves access to and ownership of the Tulip Trust BTC, this is unlikely to be particularly sustainable, and may straight-up be a pump-and-dump with an expiry somewhere between very close (before the February 3rd date for proving access) and a little further (if the case drags on further); as seen with cases like Bitconnect, these sorts of projects can go to zero far quicker than anyone thinks.

In any case, this is not something that anyone should seek to have any part of.

Crypto markets have matured enormously over the last two or three years, and in a way stories like BSV's serve to underpin how far BTC has come by comparison. Yet, it absolutely has to be emphasised: small-caps and even some mid-caps are still mostly illiquid, and are extremely vulnerable to manipulation. BSV has tended to be in an uniquely poor place in that regard, but we continue to, and will continue to, urge caution when dealing with most alts in the present marketplace.

What we're reading

[Bitwise withdraws bitcoin ETF proposal](#) (The Block): The withdrawal here is explicitly in order to relaunch it later, but this is still a hit to the chances of a 2020 ETF. We actually tend to think that 2020 is going to show a lot in terms of the maturity of the BTC market specifically (if not necessarily crypto at large), and feel very confident about approval of a BTC ETF in 2021, but prospects for this year already look poor.

[Bitcoin and ETH Are Commodities, While XRP's Status Is Unclear, CFTC Says](#) (Coin Telegraph): Every time you read a "CFTC says" headline, mentally supplant it with "someone at the CFTC says". Granted, this tends to be someone senior – new chairman Heath Tarbert in this case – but news like this rarely means anything concrete. Nonetheless, the 'XRP unclear' part should be a bit worrying for XRP holders.

[SEC Produces Evidence That Telegram Kept Selling Tokens After \\$1.7B ICO](#) (Coindesk): Not particularly surprising, but another bit of bad news. One has to wonder at this point if Telegram is seriously going to have to consider sidestepping the SEC and excluding the US, presuming they ever actually want to launch TON.

[Japan wants to halve leverage cap in crypto margin trading to 2x](#) (The Block): There haven't been many signs of the rest of the world following suit on this, which is probably on the whole good for price action, even if would be nice to get a truer view of real interest on derivatives exchanges instead of having figures distorted by 75x and 100x positions.

[CME's Options on Bitcoin Futures Pass Regulatory Approval and Go Live](#) (Coin Telegraph): The CME options launch has been modestly successful – the headline figure was CME options on their first day doing more volume than all Bakkt options since their December 9th launch. This still only added up to a tiny handful of contracts ([55 in total according to Skew](#)), so we don't think it did much to catalyse recent gains. Will be worth keeping an eye on for the next couple of months.

Until next week – thank you for reading.



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